Don’t Miss Out on AutoCanada Inc. and the Automotive Dealership Consolidation Trend

Description

Here in Canada we have a rather limited pool of options when it comes to diversifying our portfolios. We have oil, telecoms, banks, and a handful of industrial and agriculture, but not much else. That is why companies such as **AutoCanada Inc.** (TSX: ACQ) tend to stand out. This company is made up of a network of 46 automotive dealerships spread across the country.

It is the only dealership group in Canada that is publicly traded and it is perhaps the most aggressive in terms of acquisitions. That philosophy will make it the largest dealership group in the country in the near future, as it is only four locations short of that title today.

Let me be clear — this is not a buy and hold for a decade stock. AutoCanada is completely reliant on the overall automotive sector, and is thus a more cyclical buy. Luckily for investors, over the past year automotive sales records have been shattered in Canada and that trend looks to continue for the next few quarters. With the recent drop in AutoCanada’s share price, this creates what could be called “round 2” for this stock.

Acquisitions are driving growth

The driving force behind AutoCanada has been its acquisitions strategy, this has helped the company go from 28 to 46 dealerships in the past year. The company has also grown from 3 to 12 manufacturing partners since 2011. AutoCanada has been positioning itself as a worthwhile option for dealership owners looking to retire or leave the industry.

Current estimates place the size of Canada’s automotive dealership industry at 3,500 locations owned by 2,100 owners and or groups, giving AutoCanada a large pool of potential acquisitions.

Most recently AutoCanada picked up an 85% stake in Auto Boulevard St-Martin Inc. and its two locations, BMW Laval and Mini Laval. Located just outside of Montreal they sold a combined 2,200new vehicles last year. This comes off the heels of the purchase of Toronto Dodge in October, alocation that sold 615 new and 199 used vehicles in 2013.

These locations should help quell some analyst's fears that AutoCanada is too heavily invested in Western Canada, a region that will undoubtedly see some stuttering following the recent drop in crude prices.

Results? Let me check with the manager

This was a great summer for auto sales in Canada and AutoCanada benefited quite nicely, posting revenues of $733 million, an increase of 82% over the $402 million brought in during Q3 2013. A huge factor in the top-line revenues was the recent consolidation of **General Motors** stores; when that is factored out, revenues still rose by 45%.

Net earnings also saw a 62% increase totalling $17.8 million up from $6.8 million during the same period last year. While earnings per share rose 45% from $0.51 to $0.74. These results were backed by increased acquisitions as well as an 8.9% increase in same-store revenues and a 11.4% increase in same-store gross profits.

Round 2 for the stock

The stock has already experienced one meteoric rise in the past 18 months, which culminated when the stock peaked at $91.72 back in June. It appears that those who invested in the stock last year when it was in the $37 range finally cashed out, perhaps fearing their almost $60 per share increase was in jeopardy. This sell off brought the stock back down to $48.36 in September and has since climbed back up to a price of $62.12, a price that new investors could find more palatable.

Couple this with an average price target that is still north of $90, and this looks like a fresh jumping on point before the market cools down after this record-setting year in auto sales.

CATEGORY

1. Investing

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1. TSX:ACQ (AutoCanada Inc.)

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